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## **INTRODUCTION**

The Office of Internal Audit performed an audit of various Day Care Providers located throughout the State of Michigan who were paid by the Family Independence Agency (FIA) for providing day care services for the period March 1 through March 14, 1998. These providers included Licensed Day Care Centers, Licensed Group and Family Day Care Homes, and Relative Day Care Homes. The objectives of our audit were to determine if the providers had attendance records to document that the amount they were paid by FIA was appropriate, and to determine if the FIA local/district offices had adequate documentation to verify that the recipients of the day care services were eligible to receive the amount of day care services that were paid for by FIA.

## **SCOPE**

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We reviewed attendance records, billing reports, and any other documentation that supported the payments. We also reviewed case file documentation to determine if the documentation contained in the case files supported payments made for the test period.

As part of our audit procedures we reviewed selected case files of day care clients. The purpose of this review was to determine if these files contained adequate documentation to support the need for day care, provide evidence that the services were provided, and to support the payments made by FIA for day care services. The review of these case files was conducted at various local offices throughout the State.

## **EXECUTIVE SUMMARY**

Based on our audit, we concluded that the Licensed Day Care Centers generally had adequate documentation to support their billings. The Licensed Group and Family Day Care Homes did not retain attendance records or other documentation to support hours billed. The Relative Day Care Homes did not maintain attendance records, were not required to prepare billing forms, and were not licensed by the State of Michigan.

We also noted that in some instances Day Care documentation was missing in the case files maintained at the FIA local offices.

In addition, we concluded that FIA did not have adequate controls in place to ensure that providers were paid for actual hours of care provided, did not bill for more hours than were possible based on the number of children they were licensed to provide care for, or to ensure that clients accessed day care services only for the purposes for which the service was intended (i.e. work, school, etc.) Also, FIA did not report day care payments made to providers to the IRS, or furnish the day care providers with IRS Form 1099's to facilitate proper reporting of income received from FIA to the IRS.

### **PROGRAM OFFICE RESPONSE**

The Family Independence Services Administration has reviewed all findings and recommendations included in this report. They indicated in a memorandum dated July 21, 1999 that they agree with the recommendations for items #1 and 5, and disagree with the rest.

### **FINDINGS AND RECOMMENDATIONS**

#### **Casefile Documentation**

1. FIA local office case files did not always contain all the required forms and information to document eligibility for day care payments authorized. We reviewed 380 day care cases at local and district offices throughout the state. We found the following forms missing:

40	FIA-4025	Verification of Costs
113	FIA-4576	Case Reviews
37	FIA-38/4577	Employment Verification
5	FIA-4578	Verification of Education

In many cases the day care information was scattered throughout the client's case file, making the pertinent information difficult to locate. A separate packet for day care information in each case file would provide a specific place to keep this information, and would allow workers to more easily check on a periodic basis to ensure that all necessary information is on file. Adequate documentation of day care eligibility and support for hours of day care authorized is necessary to ensure that day care payments made are accurate and appropriate.

WE RECOMMEND that FIA local and district offices file day care information in a separate packet in each case file, and that workers ensure that all necessary forms and information are included in that packet.

#### Oversight of Relative Day Care Home Providers

2. There was no oversight or monitoring of relative day care home providers. The Day Care Licensing Office is required to license and monitor day care centers and group homes, but not relative day care homes. In addition, FIA did not monitor these homes. Relative day care homes are paid on a negative billing system. FIA authorizes a set payment amount, which continues to be paid until the FIA employee responsible for the case stops or changes the payment amount. This control weakness leads FIA to rely solely on the honesty of the clients and the relative day care home providers to notify them of changes in the hours of care being provided. If changes are not reported (such as addition or deletion

of children) by these types of providers, FIA continues to pay inappropriate or inaccurate amounts.

WE RECOMMEND that FIA staff periodically monitor relative day care home providers to help ensure that payments made are accurate and appropriate.

#### Payments in Excess of Maximum per License

3. FIA did not have controls in place to prevent payments to Licensed Day Care Homes in excess of the maximum they should be allowed to receive. We found that certain Licensed Day Care Homes received payments in excess of the maximum amount possible based on the number of children for which the home was licensed. We determined this by comparing the total hours paid to the maximum number of hours which could be provided in the billing period for the number of children for which the home was licensed. Attendance records and billing forms submitted by the homes may have been inaccurate in some cases, and some overpayments were due to FIA error.

WE RECOMMEND that FIA implement controls in the day care payment system to flag payments to Licensed Day Care Homes in excess of the maximum payment possible based on the number of children licensed by the State of Michigan, and require supervisory approval to process payments that are flagged by the system.

#### Hours Billed in Excess of Need

4. FIA controls over day care payments were not always effective in ensuring that hours of day care paid did not exceed actual hours provided or needed. We determined in certain instances the worker authorized more hours of day care than were needed based on the work or school schedule of the client. In some of these instances the day care provider billed for the number of hours authorized rather than the actual number of hours of day care

that were provided. This situation also made it possible for clients to use the excess hours of day care for activities for which FIA did not intend to pay for day care. This resulted in the State of Michigan being billed for more hours of day care than the hours spent by the client working or attending school. We were informed that workers were instructed to authorize additional hours over what was needed because providers could bill and be paid for fewer hours than the number authorized, but could not be paid for hours in excess of what was authorized without additional approvals, which would delay payment.

WE RECOMMEND that FIA either discontinue the practice of authorizing day care hours in excess of need, or implement a system to compare hours billed for day care with work and school hours of the clients.

#### Records Retention

5. All day care providers indicated that they kept attendance records to support the billings to FIA for hours of day care. However, many of the providers we visited did not retain the attendance records after they submitted their billing or after they were paid for the hours they billed. The Day Care Provider Handbook requires that the provider retain attendance records indicating the times the children arrived and departed each day for a period of seven years. Providers stated that they were unaware of this requirement and/or they had not received a Day Care Provider Handbook.

WE RECOMMEND that FIA send an annual notification with the day care checks informing providers of the attendance record retention requirements, and informing them where Day Care Provider Handbooks are available.

#### Training for Day Care Providers

6. FIA provided training to day care providers, however the providers informed us that they did not recall the training including billing and record keeping requirements and procedures. Also, some providers were unaware of the training offered. Many of the providers we visited expressed an interest in receiving training in policies, procedures, billing, and record keeping. Additional training would help the providers to understand the policies and procedures related to day care, and would help them to complete the billing forms properly, and keep the appropriate documentation.

WE RECOMMEND that FIA revise its training program for new providers to ensure that it includes adequate instruction in billing and record keeping procedures.

WE ALSO RECOMMEND that FIA assess its method of notifying providers of training opportunities to determine if there is a better method to ensure that providers are notified of training opportunities.

#### Provider Addresses

7. The FIA Day Care Program Office did not have street addresses or telephone numbers for many of the day care providers. The only information available was the post office box numbers where these providers had their checks mailed. Lack of an address or telephone number makes it difficult to contact the provider on short notice with information the provider needs or to obtain information from the provider. In addition, a street address or telephone number would facilitate monitoring.

WE RECOMMEND that FIA implement a system that would make provider addresses and telephone numbers easier for authorized FIA staff to obtain.

#### Income Reporting

8. FIA did not issue Internal Revenue Service (IRS) Form 1099 to day care providers or the IRS for day care payments made. Form 1099's are used to report income other than salaries and wages to IRS and the recipient of the income. The IRS requires that 1099's be provided by the payer to the payee when total payment for services exceeds \$600 in one year. Failure to provide the 1099 information makes it difficult for day care providers to determine how much income to report each year, and makes it impossible for the IRS to monitor to ensure that the income was properly reported when the providers filed their income tax forms.

WE RECOMMEND that FIA issue Form 1099's to all day care providers who receive total day care payments in excess of \$600 each year.